

Message Text

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ACTION AGRE-00

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SECSTATE PASS AGRICULTURE

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TAGS: EAGR

SUBJ: LEVIES ON EC IMPORTS OF MILLING RESIDUES

REF: STATE 206285

1. ACCORDING TO GOVERNMENT AND TRADE SOURCES, EFFORT TO INCREASE LEVY ON WHEAT BRANS WAS INITIATED BY EUROPEAN MILLING INDUSTRY. ITALIAN MILLERS HAVE BEEN OPERATING ON TIGHT MARGINS DURING LAST YEAR AND HAVE SUFFERED FROM MCA'S APPLIED ON THEIR SHIPMENTS TO EC. ALTHOUGH THEY WERE HELPED BY HIGH PRICE FOR BRAN LAST AUTUMN (160,000 LIRE/MT), LARGE IMPORTS FROM ARGENTINA DURING WINTER AND SPRING DEPRESSED PRICE TO ABOUT 100,000 LIRE/MT.

2. FORMIN, AGMIN AND MAJOR IMPORTING AND FEED PRODUCING GROUPS OPPOSE ANY INCREASE IN LEVY ON BRAN. ACCORDING TO AGMIN SPOKESMAN, ON SCALE OF ZERO TO 10, WHERE FRENCH POSITION IS 10 AND DUTCH POSITION IS ZERO, ITALIANS ARE AT 1; THEIR ONLY DIFFERENCE WITH DUTCH IS CONCERN FOR ITALIAN MILLING INDUSTRY.

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3. DESPITE OPPOSITION, BOTH AGMIN AND SPOKESMAN FOR IMPORTERS ASSOCIATION SAY ODDS ARE 60/40 FOR LEVY INCREASE. THEY EXPECT CURRENT LEVY ON BRANS TO BE ABOUT DOUBLED, FROM 25 PERCENT OF THAT FOR WHEAT TO 40-50 PERCENT.

4. ITALIANS LOWKEY OPPOSITION HAS SEVERAL EXPLANATIONS.

THEY VIEW LAST SEASON'S IMPORTS AS TEMPORARY, DUE TO FACT THAT POOR WHEAT CROP HELD TOTAL MILL THRUPUT TO LOWEST LEVEL IN MANY YEARS. BRANS HAVE ONLY A LIMITED RANGE OF SUBSTITUTION IN FEEDS AND HIGHER LEVY WILL HAVE LIMITED IMPACT ON FEED PRICES IN AN INDUSTRY ACCUSTOMED TO 10-15 PERCENT ANNUAL PRICE RISES.

5. U.S. EXPORTS OF BRAN TO ITALY HAVE BEEN VERY SMALL- ABOUT 2,000 TONS IN 1975 AND 1976 AND NONE IN 1977; LEVY INCREASE WILL THUS HAVE LITTLE IF ANY IMPACT ON SUCH A LOW LEVEL OF TRADE.

6. VIRTUALLY EVERYONE INTERVIEWED SAW THE BRAN LEVY INCREASE AS FIRST SHOT IN EC'S WAR ON GRAIN SUBSTITUTES. BRAN WAS CHOSEN BECAUSE IT WAS "THE EASIEST TARGET"--IT IS NOT BOUND BY GATT. REPEATED DEVALUATION OF GREEN LIRA DURING PAST FEW YEARS HAS CAUSED GRAIN PRICES TO SKYROCKET IN ITALY, AND HAS ENCOURAGED SEARCH FOR ALTERNATIVES. THUS MANIOC IMPORTS APPEARED FOR THE FIRST TIME IN LARGE QUANTITIES IN THE ITALIAN MARKET THIS YEAR. SEVERAL SOURCES SAID THEY EXPECTED EC TO WORK OUT A VOLUNTARY RESTRAINT PROGRAM WITH THAILAND ON MANIOC.

7. ONE SOURCE POINTED OUT THAT EC IS ALSO LOOKING HARD FOR ALTERNATIVE PROTEIN SOURCES FOR ANIMAL FEEDS. THIS YEAR, THE EC BEGAN SUBSIDIZING PRODUCTION OF FAVA BEANS, WHICH HAVE BEEN USED AS A PROTEIN SOURCE FOR ITALIAN CATTLE IN THE PAST. LIMITED OFFICIAL USE

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ACCORDING TO ITALIAN CALCULATIONS, SUBSIDY PLUS NEW HIGH-YIELDING VARIETIES OF FAVA COULD MAKE PRODUCTION FEASIBLE FOR SUBSTITUTION IN FEEDS.

8. ALTHOUGH MINAG OFFICIAL URGED THE U.S. TO "FIGHT" TO KEEP ACCESS OF ALTERNATIVE FEEDSTUFFS, HE OFFERED NO ADVICE ON HOW TO DO SO, PERHAPS BECAUSE ITALIANS COULD WIN EITHER WAY. FURTHER RESTRICTIONS ON ALTERNATIVES WOULD MOST HURT PRODUCERS IN NORTHERN EUROPE, ESPECIALLY THE DUCH. SINCE THESE PRODUCERS ARE SENDING LARGE AMOUNTS OF MEAT, ESPECIALLY PORK, TO ITALY, ANY REDUCTION OF THEIR COMPETITIVENESS WOULD FAVOR ITALIAN LIVESTOCK PRODUCERS. HOLMES

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